

# Auditing Procedures Report

Reset Form

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Issued under Public Act 2 of 1968, as amended.

Unit Name	Custer Township	County	SANILAC	Type	TOWNSHIP	MuniCode	76-1-050
Opinion Date-Use Calendar	Jun 10, 2008	Audit Submitted-Use Calendar	Jun 27, 2008	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

**Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".**

- ☒ 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
- ☒ 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
- ☐ 3. Were the local unit's actual expenditures within the amounts authorized in the budget?
- ☒ 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
- ☒ 5. Did the local unit adopt a budget for all required funds?
- ☒ 6. Was a public hearing on the budget held in accordance with State statute?
- ☒ 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
- ☒ 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
- ☒ 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
- ☒ 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
- ☒ 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
- ☒ 12. Is the local unit free of repeated reported deficiencies from previous years?
- ☒ 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it?
- ☒ 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
- ☒ 16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
- ☒ 17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
- ☒ 18. Are there reported deficiencies? ☐ 19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 128,734.00
General Fund Expenditure:	\$ 332,501.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 133,852.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

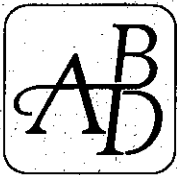
CPA (First Name)	Gary	Last Name	Anderson	Ten Digit License Number	1101005446		
CPA Street Address	715 E. Frank St.	City	Caro	State	MI	Zip Code	48723
CPA Firm Name	Anderson, Tuckey, Bernhardt	Unit's Street Address	437 W. Forester Rd	City	Sandusky	LU Zip	48471

**TOWNSHIP OF CUSTER,  
SANILAC COUNTY, MICHIGAN**

Report of Financial Statements  
March 31, 2008

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# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

Gary R. Anderson, CPA  
Jerry J. Bernhardt, CPA  
Thomas B. Doran, CPA  
Valerie J. Hartel, CPA  
Terry L. Haske, CPA  
Jamie L. Peasley, CPA  
Timothy Franzel

Robert L. Tuckey, CPA

June 10, 2008

## REPORT OF INDEPENDENT AUDITORS

Township of Custer  
Sanilac County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Township of Custer as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Custer Township's management. Our responsibility is to express an opinion about these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as amended and interpreted, as of March 31, 2008.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Custer as of March 31, 2008, and the result of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i through vii and pages 14 and 15, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Custer's basic financial statements. The additional information on page 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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*Anderson, Tuckey, Bernhardt & Doran, P.C.*

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

## **CUSTER TOWNSHIP**

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### **Management's Discussion and Analysis For the Fiscal Year Ended March 31, 2008**

As management of the Township of Custer, we offer readers of the Township of Custer financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2008.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the district has elected to exclude the comparative information. We expect this situation to continue because small townships are only required to have an audit every other year.

#### **FINANCIAL HIGHLIGHTS**

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$352,923. Of this amount, \$133,852 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$9,869.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of approximately \$137,119, a decrease of \$203,502 in comparison with the prior year. \$133,852 is available for spending.
- At the end of the current fiscal year, unreserved fund balance for the general fund was approximately \$133,852, or 104 percent of total general fund expenditures.

#### **OVERVIEW OF THE FIANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary and additional information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

**Management's Discussion and Analysis  
For the Fiscal Year Ended March 31, 2008**

The statement of net assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., delinquent personal property taxes).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes, special assessments and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the Township include general government, public safety, public works, health and welfare, community and economic development, culture and recreational, and other functions.

The government-wide financial statements can be found on pages 1 and 2 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains several individual governmental funds. Information is presented separately in governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major

**Management's Discussion and Analysis  
For the Fiscal Year Ended March 31, 2008**

fund. Data from the other governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is elsewhere in this report.

The Township adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for the general fund in the required supplementary information and for the special revenue funds in additional information to demonstrate compliance with budgets.

The basic governmental fund financial statements can be found on pages 3 through 5 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 6 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7 through 14 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's general fund and revenue budget. Required supplementary information can be found on pages 15 through 16 of this report.

Combining and individual fund statements and schedules can be found on page 17 of this report.

## **CUSTER TOWNSHIP**

### **Management's Discussion and Analysis For the Fiscal Year Ended March 31, 2008**

#### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the Township, assets exceeded liabilities by \$352,923 at the close of the most recent fiscal year.

A portion of the Township's assets (61 percent) reflects its investment in capital assets (e.g., land, building, machinery, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the Township does not have any outstanding debt.)

#### **Township of Custer's Net Assets**

	<b>Governmental activities</b>	
	<b>2008</b>	
Current and other assets	\$	137,119
Capital assets		215,804
Total assets		352,923
Current liabilities		NONE
Net assets:		
Invested in capital assets		215,804
Restricted		3,267
Unrestricted		133,852
Total net assets	\$	352,923



## CUSTER TOWNSHIP

### Management's Discussion and Analysis For the Fiscal Year Ended March 31, 2008

**Governmental activities.** Governmental activities increased the Township's net assets by \$9,869. Key elements of this increase are as follows:

#### Township of Custer's Changes in Net Assets

	Governmental activities
	2008
Revenues:	
Program revenues:	\$ 40
Charges for services	
General revenues:	
Property Taxes:	
Levied for general purposes	74,954
State sources	74,261
Investment earnings	9,314
Other	14,977
Total revenues	173,546
Expenses:	
Legislative	5,315
General government	47,376
Public safety	32,862
Public works	75,882
Health and welfare	
Unallocated depreciation	2,242
Total expenses	163,677
Increase in net assets	9,869
Net assets, beginning of year	343,054
Net assets, end of year	\$ 352,923

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

#### Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

## **CUSTER TOWNSHIP**

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### **Management's Discussion and Analysis For the Fiscal Year Ended March 31, 2008**

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balance of \$137,119, a decrease of \$203,502 in comparison with the prior year.

The general unreserved and undesignated fund balance of the general fund was \$133,852, while total fund balance reached \$137,119.

The fund balance of the Township's general fund decreased by \$203,767 during the current fiscal year. The key factor in this decrease is the construction of a new township hall.

#### **General Fund Budgetary Highlights**

The final amended budget was changed from the original budget, and the individual fluctuations can be summarized as follows:

- \$1,411 decrease in general revenues
- \$7,284 increase in general government and legislative activities
- \$200,081 increase in public safety activities due to construction of a new Township Hall.
- \$15,557 decrease in public works activities

#### **Capital Asset and Debt Administration**

**Capital assets.** The Township's investment in capital assets for its governmental activities as of March 31, 2008 amounted to \$215,804 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and office equipment and furniture.

The only major capital asset event during the current fiscal year was the construction of a new township hall.

Additional information on the Township's capital assets can be found in Note 2 on page 12 of this report.

**Economic Factors and Next Year's Budgets and Rates**

Township of Custer's goal is to continually look for the most efficient and effective methods to maintain and enhance the services that are provided to the public. The Township has a conservative and financially prudent budget for the fiscal year 2009 that also promotes and funds numerous project objectives.

The Township has deliberately made conservative estimates concerning state revenue sharing for fiscal year 2009 due to the budget constraints at the State level. It has also estimated investment earnings conservatively anticipating a slow increase in interest rates.

**Request for Information**

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Custer Township Clerk's Office, Daniel Graves, 437 West Forester Road, Sandusky, MI 48471

## **BASIC FINANCIAL STATEMENTS**

**TOWNSHIP OF CUSTER, SANILAC COUNTY**  
**STATEMENT OF NET ASSETS**  
**MARCH 31, 2008**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash on hand & in bank	\$ 130,486
Accounts receivable	<u>6,633</u>
<b>TOTAL CURRENT ASSETS</b>	<b>137,119</b>
<b>CAPITAL ASSETS</b>	
Land	15,000
Capital assets, net of accumulated depreciation	<u>200,804</u>
<b>TOTAL CAPITAL ASSETS</b>	<u><b>215,804</b></u>
<b>TOTAL ASSETS</b>	<u><u><b>\$ 352,923</b></u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
TOTAL LIABILITIES	NONE
<b>NET ASSETS</b>	
Invested in capital assets	\$ 215,804
Restricted	3,267
Unrestricted	<u>133,852</u>
<b>TOTAL NET ASSETS</b>	<u><b>352,923</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u><b>\$ 352,923</b></u></u>

The accompanying notes are an integral part of the financial statements.

**TOWNSHIP OF CUSTER, SANILAC COUNTY**  
**STATEMENT OF ACTIVITIES**  
**MARCH 31, 2008**

Functions/programs	Expenses	Program revenues		Net (expense) revenue and changes in net assets
		Charges for services		Total governmental activities
Primary government				
Governmental activities				
Legislative	\$ 5,315	\$ -		\$ (5,315)
General government	47,376	-		(47,376)
Public safety	32,862	40		(32,822)
Unallocated Depreciation	2,242			(2,242)
Public works, road maintenance, and utilities	75,882	-		-
				(75,882)
Total governmental activities	<u>\$ 163,677</u>	<u>\$ 40</u>		<u>\$ (163,637)</u>
General revenues				
Taxes				\$ 74,953
State shared revenue				74,261
Interest income				9,314
Other revenues				<u>14,978</u>
Total general revenues				<u>173,506</u>
Changes in net assets				9,869
Net assets, beginning of year				<u>343,054</u>
Net assets, end of year				<u>\$ 352,923</u>

The accompanying notes are an integral part of the financial statements.

# TOWNSHIP OF CUSTER, SANILAC COUNTY

## Combined Balance Sheet - All Fund Types & Account Groups March 31, 2008

	<u>GOVERNMENTAL FUND TYPES</u>		<u>TOTALS (MEMORANDUM ONLY)</u>
	<u>GENERAL</u>	<u>ROAD FUND</u>	<u>REPORTING ENTITY MARCH 31, 2008</u>
<b><u>ASSETS</u></b>			
Cash on hand & in bank	\$ 130,486		\$ 130,486
Taxes receivable	-		-
Prepaid expense	-		-
Due from other funds	3,366	\$ 3,267	6,633
<b>TOTAL ASSETS</b>	<b><u>\$ 133,852</u></b>	<b><u>\$ 3,267</u></b>	<b><u>\$ 137,119</u></b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>			
LIABILITIES			
TOTAL LIABILITIES	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
FUND BALANCE:			
Designated Funds		\$ 3,267	3,267
Undesignated Funds	<u>\$ 133,852</u>		<u>133,852</u>
TOTAL FUND BALANCE	<u>133,852</u>	<u>3,267</u>	<u>137,119</u>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b><u>\$ 133,852</u></b>	<b><u>\$ 3,267</u></b>	<b><u>\$ 137,119</u></b>
<b>Total Fund Balances - Governmental Funds</b>			\$ 137,119
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds			
The cost of the capital assets is:			242,857
Accumulated depreciation is:			(27,053)
<b>Net Assets of Governmental Activities</b>			<b><u>\$ 352,923</u></b>

The accompanying notes are an integral part of the financial statements.

**TOWNSHIP OF CUSTER, SANILAC COUNTY**  
**Combined Statement of Revenues, Expenditures**  
**and Changes in Fund Balance - All Governmental Fund Types**  
**For the Year Ended March 31, 2008**

	<u>GENERAL</u>	<u>ROAD FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:			
Taxes	\$ 30,141	\$ 44,812	\$ 74,953
Licenses and permits	40	-	40
State shared revenue	74,261	-	74,261
Interest income	9,314	-	9,314
Other revenues	14,978	-	14,978
	<u>128,734</u>	<u>44,812</u>	<u>173,546</u>
TOTAL REVENUES			
EXPENDITURES:			
Legislative	5,315		5,315
General government	47,376		47,376
Public safety	248,475		248,475
Public works, road maintenance, and utilities	31,335	44,547	75,882
	<u>332,501</u>	<u>44,547</u>	<u>377,048</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(203,767)	265	(203,502)
FUND BALANCE - BEGINNING OF YEAR	337,619	3,002	340,621
FUND BALANCE - END OF YEAR	<u>\$ 133,852</u>	<u>\$ 3,267</u>	<u>\$ 137,119</u>

The accompanying notes are an integral part of the financial statements.



**AUSTIN TOWNSHIP, SANILAC COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED MARCH 31, 2008**

Amounts reported for governmental activities in the statement of activities are different  
different because:

<b>Net change in fund balances - total governmental funds</b>	<b>\$(203,502)</b>
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Governmental funds report capital outlay as expenditures in the statement  
of activities.

These costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(2,242)
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Capital outlay	215,613
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Accrued revenue end of the year - primarily delinquent personal property tax	<u>-</u>
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	<u><u>\$ 9,869</u></u>
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**Change in net assets of governmental activities**

The accompanying notes are an integral part of the financial statements.

**TOWNSHIP OF CUSTER, SANILAC COUNTY**  
**Combined Statement of Revenues, Expenditures**  
**and Changes in Fund Balance - Budget and Actual -**  
**General and Special Revenue Funds**  
**For the Year Ended March 31, 2008**

	<u><b>FIDUCIARY FUND TYPE</b></u>
	<u><b>TRUST AND AGENCY</b></u>
 <b><u>ASSETS</u></b>	
Cash on hand & in bank	\$ 688
Taxes receivable	<u>61,624</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 62,312</u></b>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>	
LIABILITIES	
Due to other funds	\$ 6,631
Due to other governmental units	<u>55,681</u>
<b>TOTAL LIABILITIES</b>	<u>62,312</u>
<b>TOTAL FUND BALANCE</b>	<u>NONE</u>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b><u>\$ 62,312</u></b>

The accompanying notes are an integral part of the financial statements.

**TOWNSHIP OF CUSTER, SANILAC COUNTY**  
Notes to the Financial Statements  
March 31, 2008

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**DESCRIPTION OF TOWNSHIP OPERATIONS & FUND TYPES:**

The Township of Custer, Michigan covers an area of approximately 36 square miles within Sanilac County. The Township operates under an elected township board and is a general law township. The Township provides many services to its more than 1200 residents, including public works, public safety, community enrichment, development, and human services.

The financial statements of the Township of Custer have been prepared in conformity with U.S. Generally Accepted Accounting Principals (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**A. ADOPTION OF NEW ACCOUNTING STANDARDS:**

During the fiscal period 2008, the Township adopted GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issue June 1999; GASB Statement 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus, an amendment to GASB Statement No 21 and No. 34, issued June 2001, and in GASB Statement No. 38, Certain Financial Statement Note Disclosures, issued in 2001. These statements require the Township to prepare a Management's Discussion and Analysis, government-wide financial statements on an accrual basis, and make some changes to the footnotes.

The following table shows beginning net assets restated for the effects of implementation of GASB Statement No. 34:

Fund balance at March 31, 2007 – governmental funds	\$ 340,621
Net capital assets (restated)	2,433
Restated net assets – April 1, 2007	<u>\$ 343,054</u>

**B. REPORTING ENTITY:**

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision whether to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

Based upon the application of these criteria, the financial statements of the Township of Custer, Huron County include the accounts of all Township operations. The Township's major operations include fire protection, road maintenance, and general administrative services. The Township has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Township.

**TOWNSHIP OF CUSTER, SANILAC COUNTY**  
Notes to the Financial Statements  
March 31, 2008

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by taxes, special assessments and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The government uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

**D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants are similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current periods. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The Road Fund is a special revenue fund used to account for the receipt of a special road millage and the expenditures for maintaining the Township's roads.

**TOWNSHIP OF CUSTER, SANILAC COUNTY**  
Notes to the Financial Statements  
March 31, 2008

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION, (Continued):**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments and the public safety millage. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, the unrestricted resources, as they are needed.

**E. ASSETS, LIABILITIES AND NET ASSETS**

**1. Cash and Investments**

Cash includes amounts in petty cash and demand deposits. Investments included instruments allowed by state statute subsequently described. Investments are carried at amortized cost or fair value. The Township's deposits and investments are in accordance with statutory authority.

State statutes authorize the Township to invest in bonds, securities, and other direct and certain indirect obligations of the U.S. Treasury, which include securities issued or guaranteed by the Government National Mortgage Association; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase and not totaling more than 40% of any fund at any time. The Township is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**2. Short-Term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

**3. Receivables**

Receivables consist primarily of amounts for taxes and customer charges. No allowance for doubtful accounts is considered necessary and credit risk is minimal because of the large number of customers and the authority of the Township to add receivables to the tax rolls which are secured by the underlying property.

**TOWNSHIP OF CUSTER, SANILAC COUNTY**  
Notes to the Financial Statements  
March 31, 2008

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**E. ASSETS, LIABILITIES AND NET ASSETS, (Continued)**

4. Restricted Assets

Certain proceeds of enterprise fund bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants and Michigan law.

5. Capital Assets

Capital assets, which include property, plant, and equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40-60 years
Office Equipment	5-7 years
Computer Equipment	3-7 years

6. Estimates

The preparation of financial statements in conformity with the U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**TOWNSHIP OF CUSTER, SANILAC COUNTY**  
Notes to the Financial Statements  
March 31, 2008

**NOTE 2 – CAPITAL ASSETS:**

A summary of changes in the Township's capital assets follows:

	<b>Balance April 1, 2007</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance March 31, 2008</b>
Assets not being depreciated - land	<u>\$</u>	<u>15,000</u>		<u>\$ 15,000</u>
Other capital assets:				
Building and additions		200,613		200,613
Machinery and equipment	<u>\$ 27,244</u>	<u>-</u>		<u>27,244</u>
Subtotal	27,244	200,613	-	227,857
Accumulated depreciation:				
Building and additions		(2,006)		(2,006)
Machinery and equipment	<u>(24,811)</u>	<u>(236)</u>		<u>(25,047)</u>
Subtotal	(24,811)	(2,242)	-	(27,053)
Net other capital assets	<u>2,433</u>	<u>198,371</u>	<u>-</u>	<u>200,804</u>
Net capital assets	<u><u>\$ 2,433</u></u>	<u><u>\$ 213,371</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 215,804</u></u>

Depreciation for the fiscal year ended March 31, 2008 amounted to \$2,242. The Township determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**TOWNSHIP OF CUSTER, SANILAC COUNTY**  
Notes to the Financial Statements  
March 31, 2008

**NOTE 3 - CASH AND INVESTMENTS:**

Cash and investments are held separately by each of the Township's funds.

**DEPOSITS:**

At year-end, the carrying amount of the Township's deposits was \$131,174 and the bank balance was \$132,339, \$125,000 of which was covered by federal depository insurance.

Deposits are carried at cost. Deposits of the Township are at banks in the name of the Township Treasurer.

The U.S. Governmental Accounting Standards Board Statements No. 3 risk disclosures for cash deposits are as follows:

	<b><u>CARRYING AMOUNT</u></b>	
	<b><u>UNRESTRICTED</u></b>	<b><u>RESTRICTED</u></b>
	<b><u>ASSETS</u></b>	<b><u>ASSETS</u></b>
Cash – checking	\$130,486	
Cash – Fiduciary Fund	<u>688</u>	NONE
<b>TOTAL</b>	<b><u>\$131,174</u></b>	NONE

All deposits are uncollateralized and insured.

**INVESTMENTS:**

The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year-end. Category 1 includes investments that are insured or registered, or securities held by the Township's or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered, with securities held by the counterpart's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counter-party, or by its trust department or its agent but not in the Township's name. At March 31, 2008, the Township had no Category 1, 2 or 3 investments. Additional disclosures for GASB 40 are not included in the accompanying financial statements as the Township does not have any investments.

**NOTE 4 - LEGAL COMPLIANCE - BUDGETS:**

The Township follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Budgetary procedures are established pursuant to Act 621 PA 1978, as amended, which requires the Township Board to approve a budget for the Township. Pursuant to the act, the Township supervisor prepares and submits a proposed operating budget. This operating budget includes projected expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayers comments.
3. The budget is legally enacted through passage of a resolution.
4. The Board of Trustees must approve any revisions of the budget.
5. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue funds.
6. Budgets for general and special revenue funds are adopted on a basis consistent with U.S. generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Trustees during the fiscal year. Individual amendments were not material in relation to the original appropriations that were amended.



**TOWNSHIP OF CUSTER, SANILAC COUNTY**  
Notes to the Financial Statements  
March 31, 2008

**NOTE 4 - LEGAL COMPLIANCE – BUDGETS, (Continued):**

7. The budget is prepared by fund and function and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. Expenditures may not exceed budget at the function level.
8. The Township's General Fund total expenditures exceeded the final budget by \$17,282. This is a P.A. 621 violation.

**NOTE 5 - PROPERTY TAX REVENUE:**

Property taxes become an enforceable lien on the property as of December 1. Taxes are levied on December 1 and are due in February of the following year. The Township bills and collects its own property taxes and also taxes for the county, intermediate school district and school districts. All tax collections are accounted for in the tax collection fund, and agency fund. Township tax revenues are recognized in the fiscal year that includes the December 1 levy date. In addition the Township collected the State Education Tax and the County Tax that was levied July 1 and due September 15.

**NOTE 6 - RISK MANAGEMENT:**

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township carries commercial insurance to cover any losses that may result from the above-described activities. For insured programs, there has been no significant reduction in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**NOTE 7 - DEFERRED COMPENSATION PLAN:**

The Township offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Sec. 457. The plan, available to township employees, permits them to defer a portion of their current salary until the employee's termination, retirement, death, or unforeseeable emergency. Plan assets shall be held in a trust, annuity contract or custodial accounts for the exclusive benefit of participants and their beneficiaries. The township contributes 7.5% of employee wages. The townships contribution for the year was \$2,618. Employees may make voluntary contributions of up to 17.5%.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**TOWNSHIP OF CUSTER, SANILAC COUNTY**  
**Combined Statement of Revenues, Expenditures**  
**and Changes in Fund Balance - Budget and Actual -**  
**General and Special Revenue Funds**  
**For the Year Ended March 31, 2008**

	<b>GENERAL FUND</b>			<b>VARIANCE- FAVORABLE (UNFAVORABLE)</b>
	<b>ORIGINAL BUDGET</b>	<b>FINAL BUDGET</b>	<b>ACTUAL</b>	
<b>REVENUES:</b>				
Taxes	\$ 33,315	\$ 35,278	\$ 30,141	\$ (5,137)
Licenses and permits	1,200	1,200	40	(1,160)
State shared revenue	74,500	74,500	74,261	(239)
Interest income	9,000	9,000	9,314	314
Other revenues	22,124	18,750	14,978	(3,772)
<b>TOTAL REVENUES</b>	<b>140,139</b>	<b>138,728</b>	<b>128,734</b>	<b>(9,994)</b>
<b>EXPENDITURES:</b>				
Legislative	5,616	5,315	5,315	(0)
General government:				
Supervisor	8,828	7,879	7,879	(0)
Treasurer	9,574	11,624	11,624	0
Assessor	5,300	5,300	5,300	-
Clerk	8,477	8,825	8,825	(0)
Elections	200	1,303	1,303	(0)
Conferences & workshops	1,000	1,357	1,357	0
Insurance & bonds	5,300	5,365	5,365	-
All other general government	6,427	5,723	5,723	0
Public safety:				
Ambulance		-	-	-
Fire department	27,817	27,668	27,668	0
Halls & grounds	750	200,750	218,033	(17,283)
Zoning, inspection and other safety activities	2,544	2,774	2,774	-
Public works:				
Roads and road maintenance	41,593	24,883	24,882	1
Drains	5,300	6,453	6,453	0
<b>TOTAL EXPENDITURES</b>	<b>128,726</b>	<b>315,219</b>	<b>332,501</b>	<b>(17,282)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>11,413</b>	<b>(176,491)</b>	<b>(203,767)</b>	<b>(27,276)</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>337,619</b>	<b>337,619</b>	<b>337,619</b>	<b>-</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 349,032</b>	<b>\$ 161,128</b>	<b>\$ 133,852</b>	<b>\$ (27,276)</b>

The accompanying notes are an integral part of the financial statements.

**TOWNSHIP OF CUSTER, SANILAC COUNTY**  
**Combined Statement of Revenues, Expenditures**  
**and Changes in Fund Balance - Budget and Actual -**  
**General and Special Revenue Funds**  
**For the Year Ended March 31, 2008**

	<b>SPECIAL REVENUE FUND</b>			
	<b>ROAD FUND</b>			
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
REVENUES:				
Taxes	\$ 40,000	\$ 44,812	\$ 44,812	\$ 0
Licenses and permits				
State shared revenue				
Interest income				
Other revenues				
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	<u>40,000</u>	<u>44,812</u>	<u>44,812</u>	<u>0</u>
EXPENDITURES:				
Public works:				
Roads and road maintenance	40,000	44,547	44,547	0
Drains				
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	<u>40,000</u>	<u>44,547</u>	<u>44,547</u>	<u>0</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>265</u>	<u>265</u>	<u>0</u>
FUND BALANCE - BEGINNING OF YEAR	<u>3,002</u>	<u>3,002</u>	<u>3,002</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 3,002</u>	<u>\$ 3,267</u>	<u>\$ 3,267</u>	<u>\$ 0</u>

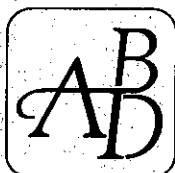
The accompanying notes are an integral part of the financial statements.

## **ADDITIONAL INFORMATION**

**TOWNSHIP OF CUSTER, SANILAC COUNTY**  
Schedule of Changes in Assets and Liabilities  
All Agency Funds  
For the Fiscal Year Ended March 31, 2008

	<b>CURRENT TAX COLLECTION FUND</b>			
	<b>BALANCE MARCH 31, 2007</b>	<b>ADDITIONS</b>	<b>DEDUCTIONS</b>	<b>BALANCE MARCH 31, 2008</b>
<b><u>ASSETS</u></b>				
Cash	\$ 347	\$ 341		\$ 688
Taxes Receivable	5,436	811,302	755,114	61,624
<b>TOTAL ASSETS</b>	<b><u>\$ 5,783</u></b>	<b><u>\$ 811,643</u></b>	<b><u>\$ 755,114</u></b>	<b><u>\$ 62,312</u></b>
 <b><u>LIABILITIES</u></b>				
Due to general fund	\$ 2,781	\$ 35,938	36,523	\$ 3,366
Due to special revenue fund	3,002	44,549	44,812	3,265
Due to other governmental units		674,627	730,308	55,681
<b>TOTAL LIABILITIES</b>	<b><u>\$ 5,783</u></b>	<b><u>\$ 755,114</u></b>	<b><u>\$ 811,643</u></b>	<b><u>\$ 62,312</u></b>

The accompanying notes are an integral part of the financial statements.



# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

Gary R. Anderson, CPA  
Jerry J. Bernhardt, CPA  
Thomas B. Doran, CPA  
Valerie J. Hartel, CPA  
Terry L. Haske, CPA  
Jamie L. Peasley, CPA  
Timothy Franzel

Robert L. Tuckey, CPA

June 10, 2008

To the Members of the Board  
Township of Custer

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Township of Custer for the year ended March 31, 2008, and have issued our report thereon dated June 10, 2008. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 10, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 10, 2008.

#### Significant Audit Findings

##### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township of Custer are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Township of Custer changed its accounting policies related to full accrual financial statements by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 34, in 2008. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in Note 1. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

##### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

##### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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Office locations in Caro,  
Cass City & Marlette

Members of the Board  
June 10, 2008  
Page 2

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 10, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

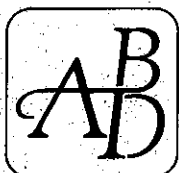
This information is intended solely for the use of the Members of the Board and management of the Township of Custer and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Anderson, Tuckey, Bernhardt, & Doran, P.C.  
Certified Public Accountants





# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

## Certified Public Accountants

---

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Timothy Franzel

Robert L. Tuckey, CPA

June 10, 2008

To the Members of the Board  
Township of Custer

In planning and performing our audit of the financial statements of the Township of Custer as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Custer's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements; but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. During the course of our audit, we observed the following significant deficiency:

### Segregation of Duties

Due to the limited number of people, many critical duties are combined and given to the available employees/board members. To the extent possible, duties should be segregated to serve as a check and balance and to maintain the best control system possible. We recommend the Township segregate duties whenever possible.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

### Excess Budget Expenditures

We noted that actual expenditures in the General Fund exceeded that of the adopted budget by \$17,283. If expenditures exceed budgeted amounts, the budget must be amended. Section IV-2 of Public Act 621 requires that the budget be amended prior to expenditures being made. The budget may not be amended after year-end. We recommend the Township review the budget requirements under P.A. 621 to avoid this problem in the future.

### Financial Statements

After considering the qualifications of the accounting personnel of the Township of Custer, we believe that the personnel have the abilities to maintain the day-to-day bookkeeping of the Township, but they do not have the qualifications and abilities to generate financial statements, including the required footnotes, in accordance with accounting principles generally accepted in the United States of America.

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**Other Matters:**

Outstanding Checks

Outstanding checks that are more than one year old need to be further investigated as to why they did not clear, added back to the books, and taken off the bank reconciliation. Checks that are very old may need to be turned over to the State of Michigan.

Board Minutes

The official minutes from each board meeting need to be printed and put together in a binder where they can be signed and approved by a board member at the following meeting.

This communication is intended solely for the information and use of management, the Township of Custer, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to be of service to the Township of Custer and look forward each year to continuing our relationship. The cooperation extended to us by your staff throughout the audit was greatly appreciated. Should you wish to discuss any item included in this letter further, we would be happy to do so.

Very truly yours,

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

Anderson, Tuckey, Bernhardt & Doran, P.C.  
Certified Public Accountants